

April 24, 2001

To The Honorable Council  
City of Norfolk

Lady and Gentlemen:

This letter transmits the FY2002 City financial plan of \$782,411,891. It includes a \$602,610,746 General Fund Operating Budget and a \$39,232,091 General Capital Improvement Project Budget. The proposed Capital Budget for other funds is: \$20,500,000 for the Water Enterprise Fund; \$10,553,000 for the Wastewater Enterprise Fund; and, \$2 million for the Storm Water Fund.

Also included are operating budgets for the Enterprise Funds: \$68,380,536 for the Water Fund; \$15,737,175 for the Wastewater Fund; \$7,458,190 for the Storm Water Fund; and, \$17,229,951 for the Parking Fund. In addition and under separate cover, the FY2002 Consolidated Plan for Community Development Block Grant (CDBG) HOME and Emergency Shelter Grant programs are submitted for your consideration.

The proposed FY2002 budget strengthens the City's commitment to restore and stabilize neighborhoods, enhances our ability to deliver services, attract economic opportunities, protects the most fragile among us, and begins to address long-standing facility needs in recreation, schools, libraries and infrastructure.

This budget also recognizes the City's positive and evolving role as a partner to those who are stepping up to build businesses and homes across Norfolk, emphasizing the City's traditional role of providing quality, cost-effective services. To the extent possible, the proposed budget limits additional financial burdens on residents to only those that are unavoidable and linked to basic services. This year, in particular, demands to address our water and wastewater infrastructure, and the rising cost of disposing of garbage can no longer be avoided.

The budget proposes to begin fundamental changes in employee compensation and benefits as we enter a new era of public accountability; changes similar to those

that municipalities and businesses throughout the country are making as they compete to attract, retain and motivate good employees. At a time when we demand more of our employees in terms of expertise, professionalism and job complexity, we must tailor compensation to meet genuine needs.

Yet, admittedly to both the citizens and City employees, we have not been able to accomplish as much as we would like. Many of these needs evolved over time and it will take time to address them. Our ability to raise revenue is constrained while our needs continue to outpace resources. Albeit, we are successfully moving forward.

## **LIVING THE VISION: CREATING COMMUNITY**

A centuries' old vision is becoming reality as Norfolk's downtown core and outer reaches grow from sketches on paper into a vibrant and diverse City. The people who live, work and study here are making an investment that is recreating Norfolk and making it a distinctively appealing and more prosperous community.

Norfolk is becoming a place where, together, people accomplish far more than any government or leaders alone could achieve. People are coming together to tackle the most urgent needs of our neighborhoods and our City. They demand that those of us who serve them support this community building and that we provide safe spaces and streets; a healthy environment; good schools and basic municipal services.

It is a tall order. But, as we continue the business of restoring our community of neighborhoods, our residents are there increasingly, helping to create what Norfolk strives to be:

- People returning to neighborhoods where they were raised – and renovating one home at a time;
- New communities sprouting from the sand along the Chesapeake Bay;
- Derelict buildings being renovated as apartments, shops, restaurants, and businesses;
- Young people starting lives and investing themselves in the employment and educational opportunities available;

- Empty nesters moving into the heart of the City to begin a new phase;
- Companies starting up, expanding, or relocating from major cities;
- The renaissance of Broad Creek, resurrection of Church Street, rebirth of Ocean View, and of neighborhoods throughout the City;

We are indeed a City, like a tree, taking root and creating new life.

A vision may only become a reality when leaders innovate, persevere, and prudently manage their resources. The remainder of this message sets forth our resource strategies for doing just that in FY2002. For ease of reference each section, where appropriate, discusses both operating and capital resource strategies by major service area.

## **REVENUE OVERVIEW**

### **National and State Impact on Norfolk**

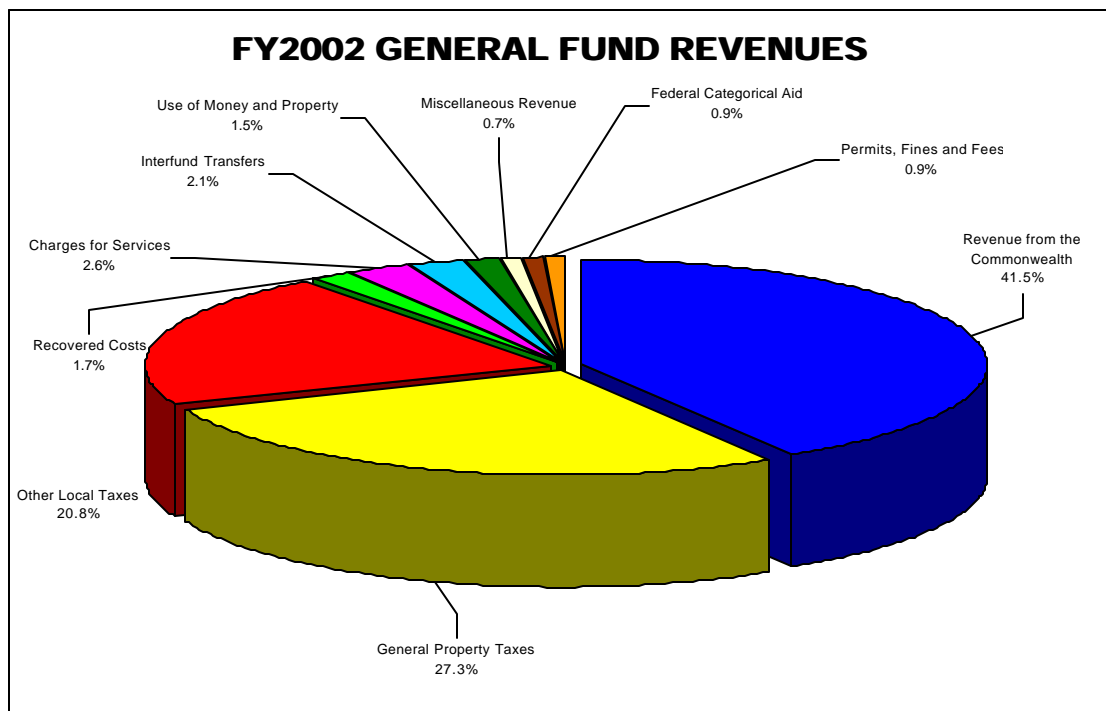
Norfolk is part of a larger economy. Nationally, unemployment is rising. Corporate profits are down and the stock market, particularly in the high-tech industry, has lost significant value. All of these factors affect consumer confidence and spending, which has a direct impact on the nation, the state, and our locality. Although the economy is slowing, Norfolk we are pleased to note, continues to enjoy the results of earlier investments. While it is projected that Norfolk will not escape the impact of a slower economy, our local economy will continue to be a tempered prosperity.

### **State Funding Grows More Complex**

Over 41 percent of the City's General Fund budget comes from the State. Yet this source of revenue has become increasingly complex and more intolerable this year because of the lack of decisions and lack of reliable state budget information. Because an agreement could not be reached in February, the General Assembly adjourned with no revisions to the two-year budget it passed last year, leaving the Governor to balance the budget.

The Governor cannot authorize new spending, thus the State budget does not include money in the second year for raises for teachers, state employees, and constitutional officers. Neither can the Governor fund the host of “non-state agencies” previously in the State budget, including museums and historical and cultural institutions that rely in part on state money. While the City proposes, to the extent possible, additional local money for these entities, it cannot make up the state's budget shortfall. We hold out hope that the Governor and General Assembly will put aside their differences and address the critical state responsibilities to provide essential services.

In addition, both the State and federal government are increasingly transferring to cities more responsibility for resolving complex social issues – without giving us any new authority to pay for it. Add to this the growing list of restrictions on and matching requirements for most state money and the City’s ability to manage its own affairs is nothing short of challenging.



REVENUE SOURCE	REVENUE	PERCENT OF TOTAL
Revenue from the Commonwealth	250,072,667	41.5%
General Property Taxes	164,245,667	27.3%
Other Local Taxes	125,533,812	20.8%
Recovered Costs	9,974,816	1.7%
Charges for Services	15,780,172	2.6%
Interfund Transfers	12,780,000	2.1%
Use of Money and Property	9,236,033	1.5%
Miscellaneous Revenue	4,445,733	0.7%
Federal Categorical Aid	5,568,827	0.9%
Permits, Fines and Fees	4,973,019	0.9%
<b>TOTAL</b>	<b>602,610,746</b>	<b>100.0%</b>

## BALANCING THE BUDGET

While Norfolk's horizons continue to brighten with growth in revenue, state revenues have actually dropped, resulting in a low overall growth rate for the City of just 2.3 percent.

The growth in revenue from downtown and other commercial areas and an estimated 4.75% growth in the value of real property helps to offset losses from other sectors.

The City is very sensitive to the tax burden already placed on its residents and emphasizes growing new revenues and holding the line on expenses. There is no recommendation for tax increases in this budget, despite the impact of rising costs and lower state funding.

Utility rate increases are never popular, but they are necessary. This budget proposes a \$0.09 per hundred cubic feet (ccf) increase in the water rate and a \$0.15 per hundred cubic feet (ccf) increase in wastewater fees to address our serious need to repair and replace aging infrastructure and continue to meet federal water quality regulations. The amount of the increase will depend on usage, but is expected to cost most homeowners approximately \$1.68 per month.

The wastewater rate increase, projected to be twice as much for FY 2002 (at 30 cents per ccf), was avoided by suspending the utility's return on investment to the

General Fund. This rate increase proposal is discussed further in the Enterprise Fund section of the Budget message.

### **Rate Adjustments**

In the early 1980's when the Southeastern Public Service Authority (SPSA) was constructed, it was designed as an environmentally friendly, fully integrated (able to handle all types of waste) waste disposal system sized to handle all of the solid waste for the eight member communities. This included the issuance of a significant amount of long-term debt to be repaid by the users over time as part of the waste disposal charge (tip fee). In the mid-1990s, the Supreme Court severely restricted the ability of local governments to mandate where solid waste collected in their communities could be delivered. As a consequence of this decision, many of the private waste haulers who had been delivering their waste to SPSA began taking this trash outside of the SPSA system. This has resulted in a decrease in revenues collected from private haulers for waste delivery and a significant increase to local governments for disposal of waste collected by them, largely to cover the additional debt service burden previously shared with the private haulers.

The trend of the loss of private waste to help defray the fixed costs of a system designed to handle their waste as well has severely hampered the coffers of local governments and citizens that are a part of the SPSA system.

Last year, the City absorbed an \$818,200 increase in charges by SPSA. While staff and the City's SPSA representative have worked diligently to minimize future costs, effective July 1, 2001, the City is anticipating an increase of over \$1.5 million in waste disposal costs. The City is not in a position to absorb this additional increase and when it comes, it will be reflected on customer's Hampton Roads Utility Billing System (HRUBS) bills.

We cannot continue to accept these large tip fee increases. The SPSA Board and City and SPSA staff are examining a variety of options to regain the private waste lost as a result of the Supreme Court ruling and stabilize municipal tip fees. Options include continuing efforts to attract more private waste to SPSA, competing for private

waste directly, and the possibility of imposing a waste generation fee to properties within the SPSA system based on their likelihood to contribute to the solid waste fee (akin to the methodology used for the storm water program). We will be pursuing this, and other options aggressively in the next few months and will bring forward proposals to mitigate future increases in waste disposal costs to our citizens.

### **Adjustment in Business License Rate for Maritime Industry**

In an effort to balance the tax burden of important maritime industries in our City, it is proposed that the tax on stevedores be slightly reduced and the rates for other maritime industry activities be slightly raised. The adjustments are proposed to be competitive with other cities in the Hampton Roads Region and retain some balance in tax obligations amongst the various businesses.

No net additional revenues are anticipated from this change. In fact, there will be a slight loss in revenue for the City. Specifically, it is proposed that the tax on stevedores activities be reduced from a flat rate of \$0.36 per \$100 of gross receipts to a tiered system providing a tax rate of \$0.36 per \$100 for the first \$500,000 of gross receipts, plus \$0.30 per \$100 for amounts over \$500,000. This has the result of reducing the total tax assessment to stevedore companies from \$124,906 to \$45,984.

For improved equity, it is also proposed that the tax rate for other maritime industry businesses, e.g., tugboat, freight forwarder and shipping agents, be raised slightly from the current \$0.36 per \$100 not to exceed \$1800, to \$0.36 per \$100 with a new cap of \$2,500. A net reduction in total business license revenues in the aggregate of \$32,000 is projected from these changes. The revised estimate of total collections from this source is \$171,000.

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## Debt Management

In FY2001 the City paid off \$19.9 million more in general obligation bonds than it issued and in FY2002 we anticipate paying off \$10.5 million more. This, along with the City's cash transfer policy, fund balance and reserves policy should ensure our favorable bond rating.

## Towing

Towing is a partnership among Police, Public Works and Public Health, and has resulted in removal of many abandoned vehicles to the betterment of community.

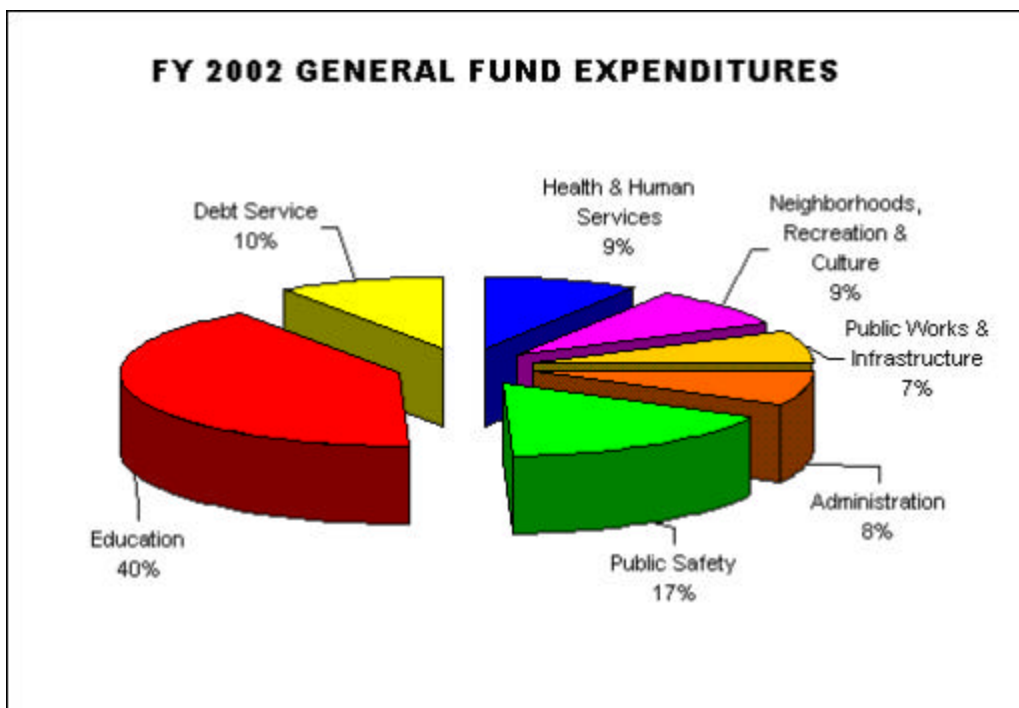
It is proposed that towing fees be adjusted to market rates, as follows:

- Daily storage fees increase from \$10 to \$15 to yield \$54,000
- Towing fees increase from \$65 to \$75 to yield \$36,000
- Large vehicle towing fees increase from \$150 to \$175 and yield \$74,000

These fee increases will return towing to a break-even enterprise.

## EXPENDITURES

The central challenge in developing both the General Fund operating and capital improvement program budgets has been to identify and fund those programs that best enhance the quality of life of Norfolk's residents. We must ensure public safety; address significant long-standing needs in our communities; and build upon our economic success to promote future economic growth.





CATEGORY	AMOUNT	PERCENT
Health & Human Services	53,494,922	8.9%
Neighborhoods, Recreation & Culture	51,924,029	8.6%
Public Works & Infrastructure	43,232,705	7.2%
Administration	48,251,863	8.0%
Public Safety	101,185,196	16.8%
Education	245,252,912	40.7%
Debt Service	59,269,119	9.8%
<b>TOTAL GENERAL FUND</b>	<b>602,610,746</b>	<b>100%</b>

This proposed budget captures the priorities of City Council, the expressed concerns of our residents, and the advice of employees throughout the Administration. Beginning with the framework developed last April, employee and management teams throughout the City launched detailed analyses of every service and function. The goal is to find better, more cost-effective ways of providing services.

This process is on going, but we have already identified and started to implement cost-saving, service improving changes identified through the Staffing and Organizational Review (SOR). Examples of these efforts include: reconfiguration of the Human Services intake area; streets and bridges proposal to rent, rather than purchase infrequently used tools for a savings of \$600,000; and significantly streamlining processes in numerous offices and agencies.

Departments will continue this process. Departments originally were required to submit proposals of 3% and 5% below their base budget. Many of these reduction proposals were too onerous to accept. However, departments' base budgets have been reduced by 1.5% in order to redistribute existing funds to other priorities.

## GETTING A “JUMP” START: CREATING SUCCESSFUL NEIGHBORHOODS

A successful city is linked to successful neighborhoods and strengthening Norfolk’s neighborhoods and the services that support those neighborhoods is a top priority.

The sale of City properties, particularly Stumpy Lake, and savings from the FY2000 budget year give the City an opportunity to initiate major new neighborhood construction projects and increase funding for other one-time neighborhood infrastructure improvements.

It is exciting to transform these external holdings into internal assets for the benefit of our residents. This money is already being put to work. In mid-April, City Council approved \$2 million for expansion of the Nauticus pier to accommodate world-class cruise ships.

City Council also approved \$1,275,000 of amendments to the FY01 budget to fund additional priority projects that need to be initiated this year. The projects include a \$700,000 advance for land acquisition in East Beach and \$575,000 for acquisition of two parcels located on Shore Drive.

**Between the proceeds from the sale of Stumpy Lake and FY00 year-end savings, approximately \$17.6 million exists:**

FY00 year-end savings	\$7.48 million
Stumpy Lake sale proceeds	<u>\$10.2 million</u>
	<b>\$17.68 million</b>

The expenditures planned for these funds include:

### Stumpy Lake Sale Proceeds

New Recreation Center	\$1,000,000
Anchor Branch Library	\$2,500,000
Neighborhood Middle School Initiative	\$2,000,000
Cruise Ship Development	\$2,000,000
Neighborhood Improvement Programs/Projects	<u>\$2,700,000</u>
<b>Total</b>	<b>\$10,200,000</b>

### FY00 Year-End Savings

Reserves for economic downturn leveling & one-time employee health assistance	\$3,000,000
Reserve for Risk Management Liability	\$2,000,000
Operating & Infrastructure Maintenance	\$1,480,000
Neighborhood Improvement Programs & Projects	<u>\$1,000,000</u>
 Sub Total	 <u>\$7,480,000</u>
<b><u>Grand Total</u></b>	<b><u>\$17,680,000</u></b>

Considering the various allocations by City priority, approximately \$7.2 million will be used for neighborhood related enhancements. Yet to be determined are specific projects for some of the neighborhood program money. Suggested uses include implementation of neighborhood improvement plan for Fairmont, and other areas throughout the City.

## **CREATING COMMUNITY: WORKING TOGETHER**

This budget proposal is distinguished by its aggressive commitment to those services and programs that improve the quality of life for families in our neighborhoods and the City as a whole.

Residents throughout the City are working with us, calling in codes violations, helping to prevent crime, volunteering in clean-up activities, attending classes and

seminars to become more knowledgeable and more effective advocates for their neighborhoods. And they are holding us accountable.

Community efforts towards improving public safety are an excellent example of citizens working in partnership with the City. Public Safety is a high priority and we continue to strive for excellence and equality.

## **PUBLIC SAFETY**

### **Police**

\$42,577,340 million is provided for police operations. This funds the same number of authorized sworn positions as in FY01 and continues an “overhire” program in which the department can hire and train officers in one academy to fill projected turnover prior to the next academy. Funds also have been added to the police overtime budget to meet actual needs:

#### *Highlights*

- By the end of FY03 computers will be placed in every marked vehicle, giving officers on the street access to essential crime and suspect data.
- In addition, the department will place video cameras in police cars by using general fund and criminal forfeiture monies.
- The budget also provides \$45,000 for diversity awareness training for officers.
- \$25,000 is included for development of an implementation plan to address long-term space needs of the Police Department.
- \$150,000 is provided for facility improvements, in addition to work performed by City’s Facility and Maintenance Department.

### **Fire & Paramedical Services**

The budget proposes \$24,242,086 million for Fire and Paramedical Services.

#### *Highlights:*

- Funding is provided for additional training to adhere to upgraded paramedical certification requirements. Funds will be used to pay tuition and provide coverage for staff in training.
- \$477,922 for renovation and expansion of Fire Station 16
- \$150,000 is provided for improvements to fire stations, in addition to on-going work performed by City's facility and maintenance department.
- Funding is also provided for the department Wellness Program, which assists uniformed personnel in meeting physical and mental demands of their profession.

### **Emergency Operations/ 911 Center**

\$3,658,514 is proposed for the Emergency Operations Center (EOC).

#### *Highlights:*

- Two dispatchers have been added to address the high demands on our 911 communications center. The Department requested five positions to provide greater flexibility in the design of staffing patterns to assign staff during peak demand periods.
- The EOC is also directed to comprehensively review it's scheduling as part of an SOR initiative.

## **NEIGHBORHOOD ENHANCEMENTS**

### **Neighborhoods: New, Renew and Support**

The budget proposes \$8.850 million for Neighborhood Conservation and Redevelopment projects. There is tremendous vibrancy in our neighborhoods. As

private investments are being contemplated and made, the City receives far more requests for services than can be managed in any one year.

NRHA has already received an advance of \$700,000 against the FY2002 allocation to avoid a slow down in the East Beach land acquisitions.

A new program, Residential Gateway Projects, will make money available for landscaping improvements in such areas as Wilson Road in Campostella, Greenhill Farms, and Virginia Beach Boulevard between Merrimac Avenue and Ballentine Boulevard and other areas to enhance the entryways into neighborhoods.

The City is continuing its financial support to improve neighborhood streets and sidewalks with \$1.5 million; and, continuation of the Church Street revitalization with \$913,000 and Old Dominion University Village with \$1.595 million.

Funding for the Bridge and Culverts Inspection and Repair program is budgeted at \$750,000. Through this program, the bridges are inspected and repaired to maintain the safety and reliability of the infrastructure.

### **Norfolk Redevelopment and Housing Authority (NRHA)**

The budget supports a number of NRHA initiatives to improve housing, such as:

- Federal HOMES program
- Construction of affordable single-family homes
- Rehabilitation of existing single-family housing stock
- First time homebuyer assistance for affordable single family homes
- Street improvements and other infrastructure improvements to make neighborhoods more livable.

### ***Broad Creek Renaissance***

The City is providing an additional \$500,000 in CIP funds to leverage the federal money being used for Hope VI and the Broad Creek Renaissance. This project will provide mixed income housing, housing for the elderly, new single- and multi-family units, and existing and multi-family rehabilitated housing. Also planned are community amenities such as an anchor branch library and a multi-purpose community center.

The goal is to purchase key pieces of property and improve them; making adjacent sites more attractive to private developers. Such an “in-fill” housing strategy has been successful in other areas of the City and improved the overall pride and quality of our neighborhoods.

The community of Douglas Park while not located in the immediate vicinity of the site where the majority of the new construction will occur is within the development area and does require attention. A Douglas Park initiative is planned to acquire vacant lots, vacant and boarded buildings and deteriorated rental properties. The crucial importance of implementing the Douglas Park initiative in conjunction with the HopeVI/Broad Creek renaissance is the ability to abate a blighting influence that if left alone would be a major impediment to the success of the HopeVI initiative.

Funds are also proposed for continued dredging in Pretty Lake and to commence dredging of Broad Creek. Unfortunately, unlike in the recent past, there appears to be little likelihood of additional State funding for dredging.

### **Removal of Blighted Properties and Development of In-fill Housing**

In the current budget year, a total of \$850,000 is budgeted for neighborhood improvements program funded from the cigarette tax. The primary purpose of the program is to fund demolition of blighted properties in neighborhoods that are not part of the conservation program, but nonetheless need to improve the quality of their housing stock. Additionally, funds in FY2002 continue demolition and support for replacement housing.

### **Neighborhood & Leisure Services**

\$ 12,419,312 million is proposed for Neighborhood and Leisure Services. \$3.1 million in capital funding is targeted to recreation centers, and the budget continues to fund successful recreation programs and services and provides \$250,000 to continue recreation facility general repairs.

The Department of Neighborhood and Leisure Services will expand its focus to meet not only youth recreational needs, but to equip our youth for an enhanced quality of life.

A full-time, senior level position will be created to direct activities of the Norfolk Youth Council and collaboratively prepare a strategic plan for youth services throughout the City.

The Department will collaborate -- to avoid duplication and maximize benefits with other community-based, non-profit organizations such as the Hampton Roads Boys & Girls Club, YMCA, Norfolk Public Schools, Community Services Board, Human Services, PACE Athletic League, Workforce Investment Board and the Empowerment Zone.

The planning process for the development of this Strategic Plan for Youth Services will build on findings of Neighbors All and the Youth Summit. It also will reach beyond and will call upon all segments of our community to share their concerns and ideas about how we can best nurture the healthy development of our youth. Our goal is a shared vision and commitment to action.

The City will submit grants requesting additional monies and will work across departments and agencies to initiate or expand programs that serve youth.

The budget also contains money in the Human Resources Department to continue mentoring and intern partnerships between City departments and young people.

The budget also proposes adding six part-time staff to expand the Before and After school programs at Crossroads, Fairlawn, Sherwood, Tarrellton, Young Terrace and Bayview recreation centers.

Additional expansion of the existing programs at Park Place, Ingleside, Grandy Village, Berkley, Norview and Larchmont is also proposed to address the waiting list that is currently growing. Safe, low cost Before and After school programs facilitate economic self-sufficiency for low income families and single mothers.

The City continues pressing forward with signature developments focused on enhancing recreational opportunities for young people, families and other Norfolk



residents. The budget funds the final \$1.5 million for the renovation and expansion of the Titustown Recreation Center and Visual Arts Program, a facility used extensively by children and adults in the neighborhood and throughout the City. Additionally, the City continues an initiative started this spring to make repairs and minor improvements at recreation centers throughout the City.

## **EDUCATION**

Norfolk is a community that understands our children don't just compete with each other or other Hampton Roads cities; they compete with an entire nation and are part of a global economy. This is why education is our highest priority; not only with direct funding, but also through support provided by other agencies, such as the Departments of Facility and Enterprise Management, Neighborhood and Leisure Services, and Public Works, among others. From voluntarily contributing thousands of dollars for scholarships to participating in mentoring and intern programs with our schools, the City and its employees are actively involved in opening doors for our youth.

### **Norfolk Public Schools (NPS)**

Emphasis on our commitment to the education of our children is evident through the funding of \$32 million over the next five years for school construction. These funds will assist with the building of a new Norview High School. This continues the City's major investment in school infrastructure. Also proposed is an additional \$2.5 million in operating funds, a significant investment, though less than had been requested.

The additional \$2.5 million in local contribution raises the total FY2002 City contribution for operations to schools to \$83.3 million. This is an unprecedented increase and is more than any increase provided since 1996. Additionally, a \$2 million allocation from the proceeds of the sale of Stumpy Lake will be provided to assist with neighborhood middle school initiatives.

Coupled with \$161.9 million from state and other outside support, the total school operating budget is proposed to be \$245.2 million.

Also anticipated is State incentive funding. The Norfolk Public School budget proposes a new algebra-readiness program for grades 6-9, small class instruction for middle and high school students who have difficulty with basic mathematics, and supplemental reading services to all K-3 students. Funding for all pre-school classes will continue; and there is an increase in funding for Even Start program at Berkley-Campostella pre-school.

Funds are provided for a local match for \$1.5 million in state technology funds to expand technology in high schools and prepare for Standards of Learning testing through the Internet in the spring of 2002.

From time to time the School and City staff have discussed the feasibility of establishing funding guidelines, which would tie school funding to certain revenue sources. Obviously, there are advantages and disadvantages to such an approach. NPS and City staff will discuss the merits of this further and work with the City Council and School Board Finance Committees.

### **Norfolk Literacy Partnership**

Recognizing the importance to all ages of a literate community, \$50,000 is provided to help fund the Norfolk Literacy Partnership, and to leverage tens of thousands more dollars in grants and other funding. The Partnership is an umbrella-like, coordinating organization to leverage the work of some 40 formal and countless informal groups volunteering to address literacy. The Partnership also is working with local colleges and universities to conduct a survey to better target literacy needs and develop effective responses.

### **Libraries**

The capital budget reserves \$12 million in funds over the next five years for the development plan that will build two anchor branch libraries -- one in the Broad Creek area and the other in Ocean View.

Libraries receive an additional \$75,935 for a total operating budget of \$4,960,255. These additional funds add to the library's books and materials allocation and include the addition of one technology staff member to provide training for patrons at various libraries. All libraries have been outfitted with computer stations, thanks in part to funding provided by the Bill Gates Foundation.

## **HEALTH and HUMAN SERVICES**

### **Human Services**

The City continues its commitment to those programs that seek to help all our residents realize their full potential. The budget proposes to fund Human Services at the current level of services, but thanks to our ability to maximize state and federal revenues results in a \$790,733 reduction in local cost. This is made possible in part, due to:

- Continued federal and state support for welfare reform activities that allows Norfolk to use growing employment services and child day care program allocations with less local funding; and
- A small fleet of new rented vehicles that allow some City vehicles to be reassigned to other departments and older vehicles to be removed from service, reducing overall costs.

All existing Human Services grants are funded. The \$415,325 in grants, include:

- Local component of the Comprehensive Services Act, which provides a coordinated, collaborative approach to meeting the needs of troubled youth;
- Second Chances (employment and training program for ex-offenders);
- Human Service Council grants (fund non-profit agencies that provide services to citizens most in need of assistance);
- Local administration of four multi-service facilities and continuation of neighborhood outreach programs; and

- Contributions to agencies in partnership with Norfolk, such as Endependence Center, Food Bank, Senior Service, F.O.R. Kids.

Also, the Human Services Department administers the LIFELINE (utility cost relief) program.

Additionally, this proposed budget funds the local share of:

- \$210,000 for repairs to Little Creek and Huntersville multi-service centers; and
- \$60,000 for consultant services to help develop a substance abuse prevention and treatment master plan.

### *Community Services Board (CSB)*

The uncertainty of the state budget situation has placed agencies largely funded by the state in a financial dilemma and this is true of the CSB, which is contracted to provide mental health, mental retardation and substance abuse services in Norfolk. This budget proposes a \$100,000 increase in funding to bring City funding to nearly \$1.8 million. This increase will help defray increases in security, and other operating costs. As a member of the City pay plan, additional funding will be provided to cover implementation costs of the compensation study accruing to CSB employees. We will continue to closely monitor the budget situation at the state level.

### **Public Health**

Funds are provided for a nurse in each school, health clinics for the economically disadvantaged, and to support health and environmental codes enforcement, including mosquito and rodent control, junk car disposal, and health inspections.

### **TOURISM and CULTURE**

The City proposes \$2.8 million for the Norfolk Convention & Visitors Bureau for tourism and meeting marketing and sales, and a challenge grant of an additional \$125,000.

While the Bureau requested \$4 million, the \$125,000 is provided as a challenge grant -- an incentive for the NCVB to raise non-public funds, as intended.

Festevents is proposed to receive level funding at \$1,024,598 and will continue to produce events and facilitate neighborhood celebrations throughout Norfolk.

**Nauticus.** The FY 2002 budget proposes converting Nauticus into a Special Revenue Fund in order to accurately reflect their financial performance and allow for the reinvestment of revenues above projections back into the facility. Nauticus' financial performance is anticipated to improve in the upcoming budget year, as it partners with the USS Wisconsin. A \$2 per ticket increase was approved in FY2001, to reflect the enhanced exhibits, their costs and deferred maintenance needs.

As a Special Revenue Fund, Nauticus will have sufficient resources to provide the necessary services associated with the projected increase in attendance, while being able to address a backlog of maintenance and repair projects. In addition, Nauticus will be able to establish an exhibit replacement and improvement account.

## **PUBLIC AMENITIES**

The City continues its support to important facilities enjoyed by residents and visitors alike, and adds value to our quality of life.

### *Highlights:*

- Norfolk Botanical Garden requested an additional \$137,999, but will receive \$25,000 to offset utility cost increases, making the City contribution \$995,000.
- \$743,000 is provided for improvements to tourism infrastructure, such as walk ways and deferred maintenance to Waterside.
- The City is providing \$6.2 million in capital funds for improvements at the Zoo over the next five years, \$2.5 million of this is proposed for FY 2002. The FY2002 allocation allows the zoo to complete its Okavanga Delta expansion and funds, specifically, a new education and entry complex, landscaping and

parking lot repairs. \$189,406 is proposed for animals for the expanded Okavanga Delta exhibit. The Virginia Zoo Society is proposed to receive \$135,000 for administrative expenses. An additional \$25,000 is proposed for marketing the Zoo at this critical juncture of the new Okavanga Delta exhibit. An opportunity for additional marketing money in the form of a one-time \$25,000 matching grant is offered, if the Zoo Society raises an equal amount from private donors.

- Chrysler Museum of Art will receive \$2.1 million, continuing our commitment to building maintenance. This is an increase of \$125,000.
- Civic Facilities (Scope, Chrysler Hall, and others) is provided an operating budget of \$4.2 million, including funding for a new flooring system that will permit faster conversion between ice and non-ice flooring and other Scope improvements.
- Norfolk Commission of Arts & Humanities is provided \$450,000, an increase of \$10,000.
- Virginia Arts Festival will receive \$500,000.
- Waterside operations will receive \$513,000
- Fleet Week will receive \$70,000.

The City remains committed to enriching the lives of the residents through its financial support of cultural building improvements. Over the next year, it is proposed that:

- \$300,000 of additional funds be invested for the renovation of the Attucks Theater;
- \$200,000 for improvements at MacArthur Memorial;
- Funds for humidification at the Chrysler Museum; and
- \$500,000 for concrete repairs at Harbor Park.

## **Public Facility Improvements**

\$1.171 million is proposed to continue public building repairs and improvements.

Projects include needed improvements to the Circuit and General District Courts, performing roof and wall repairs at various City buildings, including fire and police facilities, as well as work Kirn library. An update to the Courts Facility study is also proposed.

## **Fleet**

Norfolk needs to make a significant investment in fleet replacement. The backlog created over the years by deferring vehicle replacements has created an unreliable and poor inventory of equipment. Maintenance costs are much higher for vehicles beyond their useful life and often exceed the annualized cost of replacement. Increased downtime for older vehicles reduces reliability of service as well as impact employee productivity. One time money from FY01 year-end savings will be used for additional fleet replacement.

## **DEVELOPMENT**

This Proposed Budget continues the City's financial support for neighborhood commercial area improvements at \$500,000.

In East Beach – where the City continues to make a substantial investment, along with private funding, our goal is to push forward one of the most exciting residential developments along the East Coast, creating an environment for private investment and housing construction.

### **Small and Minority Business Development**

As the City's business sector continues to prosper, a commitment is made to small and minority business development. An initial allocation of \$25,000 is proposed to begin to organize "angel company" programs that emphasize counseling and outreach. It is envisioned that this will lead to future investments to include business incubators, and better leveraging of both public and private resources and voluntary activities to nurture new business in our community.

## **Parking**

In FY2002, the City will implement new strategies developed by a comprehensive parking study conducted on behalf of the City. A new on-street parking program will be implemented with a substantial increase in the amount of metered parking to support the needs of professional offices and businesses.

## **ELECTIONS**

Funding of \$87,103 is provided primarily for costs associated with redistricting resulting from the 2000 Census results. This includes three mailings to notify voters of the new districts.

Also \$2 million remains available for the purchase of new state-of-the-art voting equipment once the state selects a vendor. The new voting equipment is expected to be ordered after testing in the June 12 primary election and certification by the state following the primary.

## **LIVING THE VISION: Providing the tools to serve**

Quality service depends on quality employees, and on equipping them to do their jobs effectively. Jobs have become more complex and multi-faceted, with more resident involvement and the constant demand to find ways to work more productively, more efficiently and smarter.

This budget proposes the City make a long-term commitment to preserving the human and capital resources that gird the City's success. We must also begin a dialogue with employees to find a way for them to take advantage of new strategies for providing for their long-term health and prosperity.

In fiscal year 2001, the City undertook a benchmark compensation and classification study to help the city to attract and to retain a qualified workforce. The results of the first phase of this study are addressed in the FY 2002 budget.



Phase I of the Classification and Compensation Study found that the City's pay plans are generally within the average pay of the labor market. Some positions, however, are below market rates, particularly those in high-skill, high-demand occupations, and must be adjusted.

Market survey data provides a basis for comparison and serves as a beginning reference point for making informed pay decisions. However, it is only one factor in setting a pay structure to ensure a quality workforce. Other factors include overall pay philosophy and the City's financial condition, among others. Phase I sought to accurately capture the scope of each job category and place it within the City's organizational structure and a new pay plan. Such a move is essential as the City prepares to undergo Phase II, which will identify and implement pay and compensation strategies that reward initiative, skills acquisition and quality performance. The recommendations for FY 2002 are based on the following implementation steps:

- As employees are moved into new job grades, they will receive pay adjustments commensurate with their new job descriptions. Employees currently below the first step of their new pay range will be moved to the first step; in some cases resulting in more than a 4% salary adjustment. No employee's pay will be reduced, however, anyone above the maximum step of their new pay range will be frozen from receiving additional compensation for the time being. There are a limited number of employees in this situation.
- For employees falling within their new pay range, they will move to the step within the range that yields a 4% adjustment. This may result in an incremental increase above 4% to assign the employee to the appropriate step.

Merit step increases will continue, however steps within the new pay plan are 2.5%, rather than 2.47%, which currently exist. Qualified employees will also be eligible to receive a merit step increase on their anniversary date.

## **Health Insurance**

New health premium costs are expected to increase by as much as 36 percent -- partially a nationwide phenomenon -- and partially due to the expiration of an

advantageous contract held by the City for a number of years that contained capped insurance rates.

If the new contract did not begin in October, and the City had to fund an entire 12 months, in FY2002, the cost would be nearly \$4.9 million. As it is, to fund nine months under a new contract will cost over \$3.1 million. Although the City absorbed a \$700,000 increase in FY2001, we are unable to continue absorbing all of the health insurance increase. It is proposed that individual policyholders (employees) will increase their monthly contribution to \$15 (from the current \$1 per month). Spouse and family rates will remain unchanged. We will continue to actively promote health and fitness practices and programs to mitigate future medical cost increases. With the proposed employee contribution, the additional cost to the City for health insurance will be \$2.557 million.

A Benefit Review Committee is being established to evaluate cost-containment health plan designs during the new fiscal year.

It is also recommended that two actions be taken to assist current retirees in the City health plan. In the past retirees have been grouped separately from active employees for purposes of identifying their claims experience, which is used to determine insurance rates. It is proposed that the retirees and active employees be merged into one experience-rating group. Also, while the City has not contributed in the past to the retirees health insurance, for one time only, it is proposed that \$140,000 be used from the general fund to mark down the increase premiums for this fiscal year only. This stopgap measure serves only to transition the retirees into the even higher rates they will need to pay the following year.

## **Retirement**

Retirement is an important benefit when it comes to retaining talented employees. Following completion of a detailed retirement study performed by Palmer and Cay, comparing Norfolk's practices with those of other governmental jurisdictions, it is clear the City needs to make adjustments to its retirement benefits. It is also clear that we cannot do everything at once. Finally, the plan has been amended to incorporate portability agreements with Virginia Retirement System and other localities. Additionally

a new provision will be added to the Retirement Plan to allow employees to purchase prior service on a pre-tax basis. The purchase of service will be optional and the financial responsibility for the cost borne by the employee. This budget proposes several additional changes to the retirement system, which serve to make our plan more comparable with other cities' plans.

**Public Safety:** Currently public safety retirement employees accrue retirement benefits at three different levels, based on date of hire. The current inequity, and cap, results in morale issues and is unnecessarily complicated to explain. Retroactively (counting entire length of service), all current public safety employees will accrue retirement benefits at the same level. In FY 2002, all will go to 2.5 percent, with a 65 percent cap. At present, employees accrue retirement benefits at a 2% or 2.2% rate.

We will continue to evaluate the concerns of public safety employees regarding an accrual cap of 65% (benefit cannot exceed 65% of salary). Due to cost, it is not affordable and thus excluded as a recommendation at this time.

**Current General City Employees:** The accrual rate is proposed to be equalized for all years of service at 1.75 percent for all general employees hired after July 1, 1980. This will bring newer employees up to the same level as those with longer tenure, with the exception of those employees hired prior to July, 1980 whom now accrue at 2 percent annually. It is proposed to let this relatively small group continue to accrue at the historical rate, as they near retirement and the rate is phased out. General City employees also will receive a 30-years-and-out benefit enhancement.

**Current Retirees:** Of all the retirement benefit recommendations made by the consultant, the most challenging was an automatic cost of living provision for retirees. Conceptually, the need for periodic adjustments to a fixed income to track with inflation is understandable. However, even with a hybrid approach, it is extremely expensive. Therefore, it is recommended that no automatic COLA provision be included in either of the City's Retirement Systems at this time. We are fast approaching the point where the

City will have as many retirees as employees. Retirement obligations must be kept in balance with other City priorities.

Given the length of time since the last COLA adjustment for current retirees, it is proposed that current retirees receive a 3% COLA, effective July 1, 2001. It is intended that this COLA be made permanent. Additionally, for retirees who had a retirement benefit of less than \$500 per month, who have received a special supplement for the last two years, will have this supplement incorporated into their permanent retirement payment.

Another recommendation made by the retirement consultant was to consider providing a supplemental payment to assist with health care. The supplement was to be based on a multiplier factor on years of service. This concept may have some merit, but determining how much of a multiplier, restrictions based on a minimum number of years of service, etc. will require further analysis. This recommendation is not proposed in the FY2002 Budget and will be studied further. An alternative to the consultants approach may be modeled after a 401 plan concept where the employer and employee contribute to a health savings plan. This is likely to be more beneficial to current employees, however it is acknowledged that it would not address the needs of current retirees. This and other approaches will be considered.

Each year the City engages an actuary to determine the cost for the employee retirement benefit. For the past few years we have been able to subsidize this cost by amortizing the plan's current excess funds. By increasing the benefit provisions proposed in the FY2002 Budget, that surplus amortization used to offset our cost each year is substantially reduced. While we don't anticipate these benefit enhancements will require a cash contribution in FY2002, cash contributions may be required in FY2003 and beyond. It is anticipated that the surplus amortization in FY 2002 will be reduced by approximately \$3.6 million

It should be noted these recommendations are based on up-dated, preliminary reviews by our consultant and must be confirmed by the City's actuary. If there are significant variations in the latest estimates by the actuary of the benefit enhancements proposed, adjustments may be required. For perspective, the true liability (costs) to the

City for providing the retirement benefit to employees, without considering any of the proposed changes, expressed as a percentage of payroll, is 13.07%.

## **ENTERPRISE FUNDS**

### **Utility Costs**

Currently, the Water and Wastewater funds are experiencing revenue shortfalls due to rates inadequate to support the replacement of aged and deteriorating infrastructure. Cities throughout the country are facing the same dilemma. Utility rate increases are unpopular. They are never pleasant to propose. And they only are proposed when there is no alternative.

The Utility has succeeded in reducing operating expenses by \$4 million over the past four years. With debt service now accounting for approximately 50 percent of the Water Utility's total budget, the opportunity for further substantial operational reductions is slim.

Fortunately, the Water production facilities and most of the water distribution system are in better condition than our wastewater infrastructure, although certain neighborhoods still require distribution system upgrades.

In contrast, the condition of the Wastewater infrastructure is poor. Funds have not been made available to address the needs of the aging system. Some of the sewer mains have been in service 80 years and overflows are occurring, negatively affecting our neighborhoods and homes. In the last year, there has been a substantial increase in customer service requests and pump station maintenance and repairs.

Road repairs are often delayed until funds become available to fix the wastewater pipes under the street. Yet, wastewater rates have not been increased since 1998. Norfolk is not alone. It is estimated that America's water and wastewater systems face an estimated funding gap of \$23 billion a year between current investments in infrastructure and the investments that will be needed over the next 20 years to replace aging and failing pipes and meet existing and imminent federal mandates.

To address the substantial need for water and wastewater infrastructure improvements, the budget includes a Water rate increase of \$0.09 in FY2002 and another \$0.09 in FY2003; a Wastewater rate increase of \$0.15 in FY2002 and a \$0.14 addition in FY2003.

It is essential that a rate increase be considered by the Council to allow for modest, but essential, wastewater and water infrastructure improvements and provide cash flow relief to the Wastewater Fund.

It is estimated that the average increase for a family of four will be \$1.68 per month. To minimize the impact of the wastewater rate increase I have proposed suspending, for the time being, the \$1.45 million return on investment (ROI) from the Wastewater Fund to the General Fund.

The additional revenue and suspension of the ROI will bring the wastewater utility to a more stable financial condition and enable the City to begin making much needed capital improvements throughout the City. Improvements will take time, but, the increase will enable the City to begin the engineering analysis, establish the sequences, and make a sound start. The needs are substantial and the City must respond accordingly to preserve the economic base and quality of life for our residents.

The additional revenue will bring the wastewater utility to a stable financial base and provide funds to support necessary wastewater upgrades. With these funds, the city can continue to support neighborhood projects and apply for matching grant funds. There is a need for over \$100 million in necessary wastewater repair and replacement projects over the next 15 years.

### **Exploring Options for the Future for Easing the Burden on Ratepayers**

It has been suggested that were the City to include solid waste and storm water expenses on the real property tax bill, homeowners would derive a tax benefit that under current practices is not available to them. We will continue to study this option as well as other approaches to lessening the burden on taxpayers in the coming year.

## **FUTURE CHALLENGES**

The National League of Cities nationwide survey suggests that while “the fiscal situation for most cities is positive, the number of city officials reporting decreasing revenue estimates suggest the fiscal outlook for cities is becoming increasingly cloudy.”

This trend was spotted as early as last August, when NCL’s City Fiscal Conditions Report said “the upward trend of cities reporting they are better off from one year to the next was beginning to level off.”

While Norfolk is seeing revenue growth from many sectors, it will continue to face major challenges for a number of years. Chief among them:

- \$6.5 million in maintenance needs for City facilities, not including pent up demand for modern libraries and recreation centers.
- \$200 million in water and sewer system capital needs.
- \$21 million to replace City vehicles, from refuse trucks to squad cars that are well past their optimal useful life.
- Commitments to repair or replace aging schools.

These challenges present themselves at a time when the economy shows signs of weakening, when the demand for services is increasing and state and federal funding is becoming more restrictive.

## **CONCLUSION**

Norfolk is rich in innovation and perseverance, therefore, we will meet these challenges. While it is our nature to focus on how much we must do, we are mindful and grateful for how much has been accomplished. Across our City, residents step forward and give their community the benefit of their time, their talent and their energy. They are demonstrating that, if we do our part, they are willing to do theirs -- rescuing

neighborhoods from decay, providing the improvements needed to keep other neighborhoods stable, and – perhaps most importantly – leaving no neighbor behind.

Our vision for community building with the residents as our partners and the creative forces of our employees make it a privilege to serve the City of Norfolk. It is the solid waste driver repairing bicycles for Christmas presents for children; the police officer working closely with Neighborhood Watch volunteers; the teachers reaching into their own pockets to make sure students have the materials they need; the administrator who works a 12-hour day and then heads off to a Civic League meeting -- - these are the people, the partnerships and the commitment that make Norfolk great.

The City of Norfolk, like the USS Wisconsin that now graces our waterfront, exemplifies force, greatness and beauty today -- and for generations to come.

In closing, I would like to thank the City employees and residents who have continued to work our vision toward a new Norfolk reality. As always, I would like to thank the Budget staff and all of those who helped to prepare this document and to continue to involve all parties in budgetary decisions and in making Norfolk the city and the home we aspire for it to be.

Respectfully submitted,

Regina V.K. Williams  
City Manager